

Washington State Department of Retirement Systems

Funds of the State of Washington

Comprehensive Annual Financial Report

For the Fiscal Year Ended June 30, 2003

Prepared by the Washington State Department of Retirement Systems

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Department of Retirement Systems

Guiding Principles

1

We will treat our customers and each other with respect, fairness, honesty, and consistency.

2

We will communicate openly and considerately.

3

We will foster a climate in which innovation, initiative, and accountability are expected and supported.

4

We will work with our customers to improve our responsiveness in meeting their needs.

5

We will maximize the use of technology and emphasize user-friendly interface.

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Introductory Section

Message from the Director

It is my pleasure to present to you the 2003 Washington State Department of Retirement Systems (DRS) Comprehensive Annual Financial Report. Inside these pages, you will find detailed information on our funding and investments, as well as an overview of our retirement plans and services.

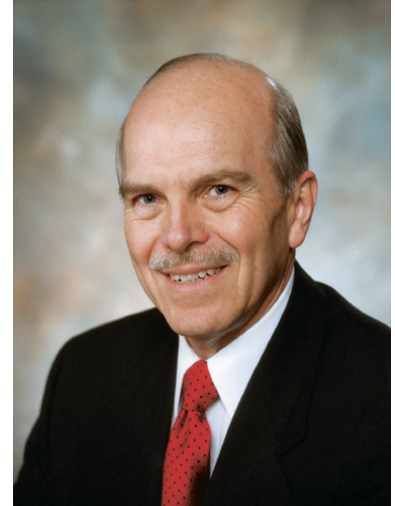
We take great pride in maintaining the highest level of integrity in our financial accounting and transactions and indeed, in all that we do. The plans we administer provide those who devote a career to public service with a defined benefit guaranteed to last a lifetime. In times often described as uncertain, countless numbers tell us how much they value that benefit in assuring their quality of life upon retirement.

Members also tell us, through surveys and informal feedback, that they appreciate our continuing focus on service enhancements designed to meet the changing needs of our customers. In 2003, we developed a pilot application that will allow members to access their account and benefit information online, twenty-four hours a day, seven days a week. In the coming months, we will move toward launch of that service.

We implemented electronic reporting this year for our employers, allowing them to save time and paper transmitting your information to us. As a result, the number of paper reports has dropped significantly, while electronic reporting is on the rise. The online Employer Audit program, which helps employers ensure they are correctly determining and reporting retirement eligibility, is proving to be a popular tool. And Member Status Verification, which enables electronic verification of information for newly hired employees, is saving employers valuable time.

Strategic Initiatives that make the most of changing technology are an integral part of our vision "Delighted customers, proud staff."

At the same time, we continue a vigorous focus on operating at maximum efficiency, assuring the citizens of Washington that every dollar is wisely used. Once again this year, an external study of public retirement systems confirmed that our pension administration operates as one of the most cost-effective in the nation.



John F. Charles

If you should have any questions or would like to request additional information, please call us toll-free at 1-800-547-6657. In the Olympia area, dial 664-7000. You may also write us at P.O. Box 48380, Olympia, WA 98504-8380 or access our Web site at www.drs.wa.gov.

We look forward to serving our members in 2004.

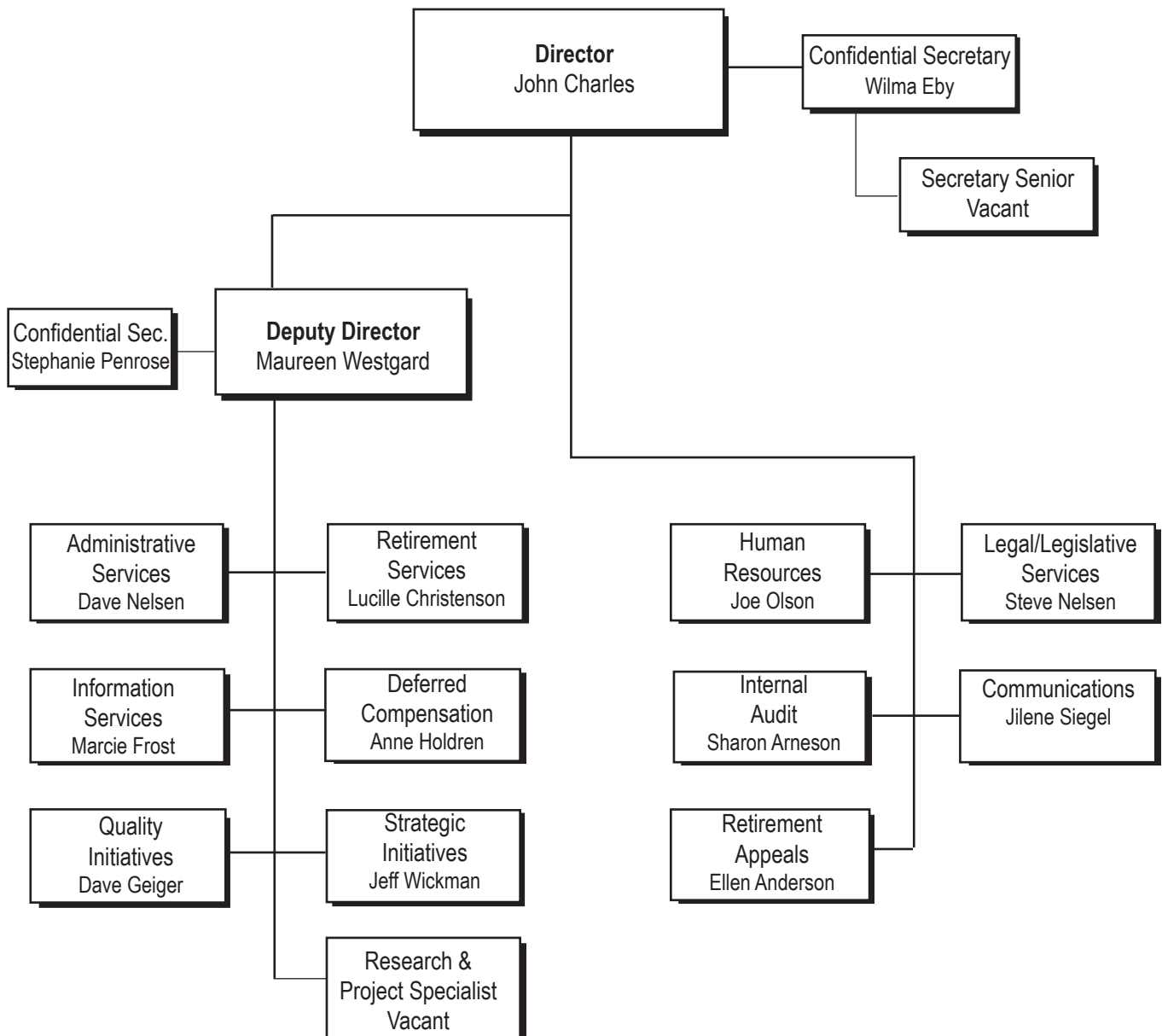
Sincerely,

A stylized, handwritten signature in black ink, consisting of a large, flowing 'J' followed by a series of connected loops and a long horizontal stroke extending to the right.

John F. Charles
Director

Department of Retirement Systems' Organization

June 2003



Pension System Roles and Responsibilities

Department of Retirement Systems (DRS)

Collects and accounts for employer and employee contributions; maintains retirement records; pays benefits; communicates pension information; provides investment education; and administers the Deferred Compensation and Dependent Care Assistance Programs.

The governor appoints the director of DRS.

P.O. Box 48380, Olympia, WA 98504-8380

Telephone: (360) 664-7000, in Olympia, or toll-free at 1-800-547-6657

Web site: www.drs.wa.gov

Legislative Fiscal Committees

Review and report on retirement bills to the full Legislature.

The legislative fiscal committees are the House Appropriations Committee and the Senate Ways and Means Committee.

House Appropriations Committee

P.O. Box 40600, Olympia, WA 98504-0600

Telephone: (360) 786-7573 or toll-free 1-800-562-6000

(Legislative Hotline)

Web site: www.leg.wa.gov

Senate Ways and Means Committee

P.O. Box 40482, Olympia, WA 98504-0482

Telephone: (360) 786-7715 or toll-free 1-800-562-6000

(Legislative Hotline)

Web site: www.leg.wa.gov

Joint Committee On Pension Policy

Studies pension issues and retirement finances. Develops pension policies and recommends pension legislation.

The Joint Committee on Pension Policy is a bipartisan standing legislative committee composed of eight senators and eight representatives.

Committee Membership

(June 30, 2003)

Senators

Don Carlson (Chair)
Harold Hochstatter
Karen Fraser
Harriet Spanel
Ken Jacobsen
Debbie Regala
Linda Evans Parlette
Shirley Winsley

Representatives

Gary Alexander
Glenn Anderson
Steve Conway (Vice Chair)
Jerome Delvin
Mike Cooper
Bill Fromhold
Cheryl Pflug
Geoff Simpson

P.O. Box 40914, Olympia, WA 98504-0914
Telephone: (360) 753-9144

Pension Funding Council

Adopts economic assumptions for pension funding and member and employer pension contribution rates for PERS, SERS, TRS, LEOFF and WSPRS.

Membership consists of the directors of DRS and Office of Financial Management, and the Chairs and Ranking Minority Members of the Senate Ways and Means Committee and House Appropriations Committees.

Council Membership

John Charles—Director, Department of Retirement Systems, Chairperson
Marty Brown—Director, Office of Financial Management
Senator Lisa Brown—Chair, Ways and Means Committee
Senator Dino Rossi—Ranking minority member, Ways and Means Committee
Representative Barry Sehlin—Co-chair and ranking member, Appropriations Committee
Representative Helen Sommers—Co-chair and ranking member, Appropriations Committee

Can be contacted through DRS. See information on preceding page.

Office of Financial Management

Advises the governor on pension and funding policies and issues.

The governor appoints the director of OFM.

P. O. Box 43113, Olympia, WA 98504-3113

Telephone: (360) 902-0555

Web site: www.ofm.wa.gov

State Investment Board

Invests and accounts for pension funds. The Board consists of nine voting members.

Membership consists of the director of DRS; the state treasurer; the director of Department of Labor and Industries; a state senator; a state representative; an active member of PERS, SERS, LEOFF and TRS; and a retired member of one of the seven systems.

Board Members (Voting Members, June 30, 2003)

Deborah Brookman
Representative of PERS

Michael J. Murphy
State Treasurer

John F. Charles (Chair)
Director, Department of Retirement Systems

David Scott
Representative of TRS

Glenn Gorton
Representative of SERS

Representative Helen Sommers

George Masten
Representative of Retired Members

Paul Trause
Director, Department of Labor and Industries

Patrick McElligott
Representative of LEOFF

Senator Joseph Zarelli

Board Members (Nonvoting Members, June 30, 2003)

Jeffrey Hanna
Investment Professional

John Magnuson
Investment Professional

Jeffrey Seely
Investment Professional

Charles A. Kaminski
Investment Professional

Robert S. Nakahara
Investment Professional

P.O. Box 40916, Olympia, WA 98504-0916

Telephone: (360) 956-4600

Web site: www.sib.wa.gov

Office of the State Actuary

Acts as an advisory agency to the legislature and director of DRS. Performs actuarial studies and reports on retirement bills. Creates formulas used to compute benefit payment adjustments that are based on early retirement, cost-of-living or long-term survivor benefits.

The State Actuary is appointed by the Joint Committee on Pension Policy.

P.O. Box 40914, Olympia, WA 98504-0914

Telephone: (360) 753-9144

Employee Retirement Benefits Board

Provides recommendations to the State Investment Board on self-directed investment options for defined contribution plans; determines the payment options available for Plan 3 members; approves administrative charges assessed to members who participate in self-directed investment options; and provides recommendations on investment options for the Deferred Compensation Program. Board members are appointed by the governor. As of June 30, 2003, the board members were:

Board Chairperson

- John F. Charles—Director, Department of Retirement Systems

Representing experience in defined contribution plan administration:

- Kathy Grimm—Director of Client Services, Russell Investment Group
- Al Symington (Vice-Chair)—Retired

Representing Public Employees' Retirement System members:

- Claude Burfett—DSHS/Fircrest School
- Dr. Robert Lenigan—Psychologist/Program Coordinator,
Western State Hospital
- Gene Otis—Retired

Representing Teachers' Retirement System members:

- Nancy Baldwin—Retired
- Dr. Alison Olzendam—Washington State University
- Herbert Sargo—Science Teacher, Burlington-Edison School District

Representing School Employees' Retirement System members:

- Virginia Drummond—Personnel Report Technician, Tacoma School District
- Marian Harrison—Retired
- Judi Owens—Head Secretary Maintenance Department, Central Valley School District

Representing Deferred Compensation Program Participants:

- Kathy Whitlock—Retired

Can be contacted through DRS. See information on page 11.

DRS Advisory Committee

Serves in an advisory role to the director of DRS on retirement administrative issues. Advisory Committee membership is distributed in the following manner:

The committee consists of 12 members representing active and retired members of the retirement systems administered by DRS.

Committee Membership

(June 30, 2003)

PERS

Marian Harrison
Retired

Christopher Melly
Active

John I. Payne
Active

Mary L. Sherman
Active

LEOFF

Dick Hybak
Active
(law enforcement officer)

Patrick McElligott
Active
(firefighter)

Richard Warbrouck
Retired

TRS

Nancy Baldwin
Retired

Todd Beese
Active
(teacher)

Darrell Heisler
Active
(administrator)

WSPRS

Captain William L. Hilton
Active

JRS

Judge Donald Haley
Active

Can be contacted through DRS. See information on page 11.